Employment Development Department
State of California

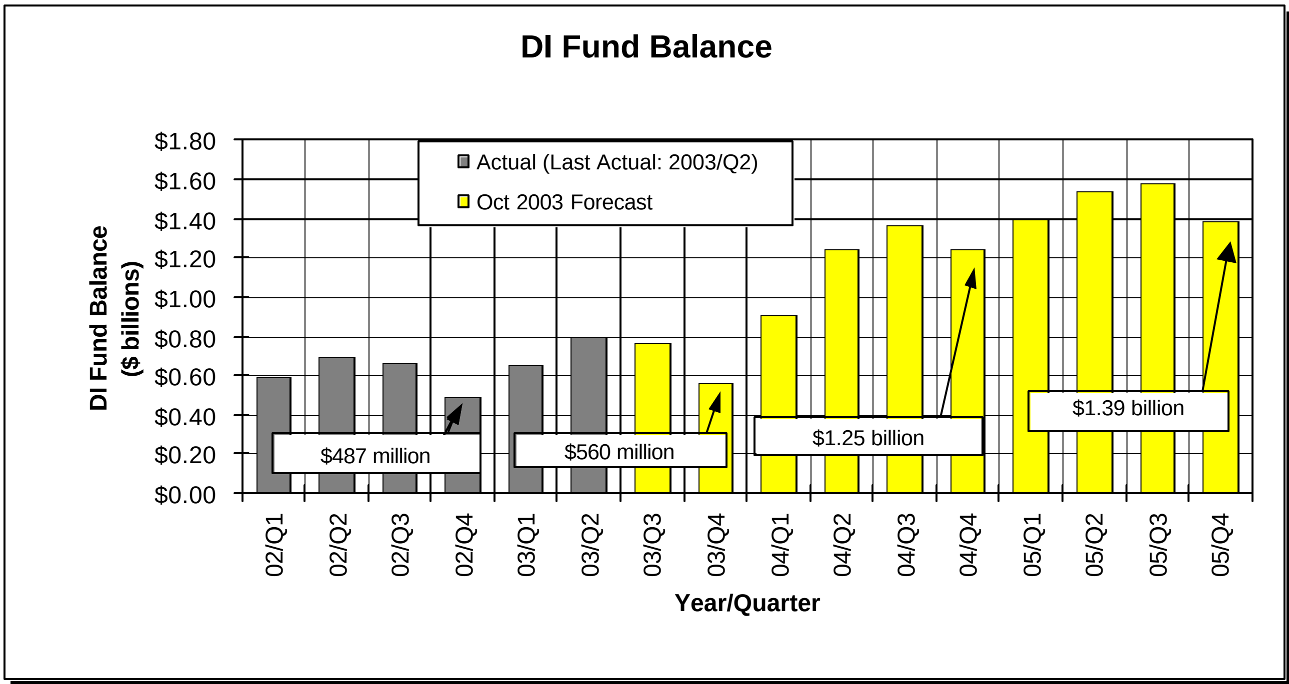
Disability Insurance Fund Forecast

October 2003

OCTOBER 2003
DISABILITY INSURANCE (DI) FUND FORECAST

Fund Balance

The DI fund balance was $487 million at the end of 2002 and is projected to increase to $560 million in 2003, $1.25 billion in 2004, and $1.39 billion in 2005. The following chart shows the actual and projected quarterly DI fund balance from 2002 through 2005.



The projected fund adequacy rate is 17 percent for 2003, 32 percent for 2004, and 31 percent for 2005. The fund adequacy rate is calculated by dividing the year-end fund balance by disbursements for the calendar year. The Employment Development Department (EDD) consulting actuary recommends a fund adequacy rate between 25 and 50 percent.

Net Benefits

Net benefits for 2002 were $2.83 billion and are projected to increase to $3.08 billion in 2003, $3.71 billion in 2004, and $4.24 billion in 2005. The projected increases for 2003 are due to the increases in the Average Weekly Benefit Amount (AWBA) and the projected duration in DI claims. For 2004 and 2005, the increases are due to the increased AWBA, a projected increase in duration, and the Paid Family Leave (PFL) benefits scheduled to begin July 1, 2004.

Assembly Bill 749 (Chapter 6, Statutes of 2002) increased the Maximum Weekly Benefit Amount (MWBA) from $490 in 2002 to $602 in 2003, $728 in 2004, and $840 in 2005. The AWBA increases when the MWBA increases.

Net Benefits (continued)

The following table compares the MWBA and AWBA for calendar years 1999 – 2005:

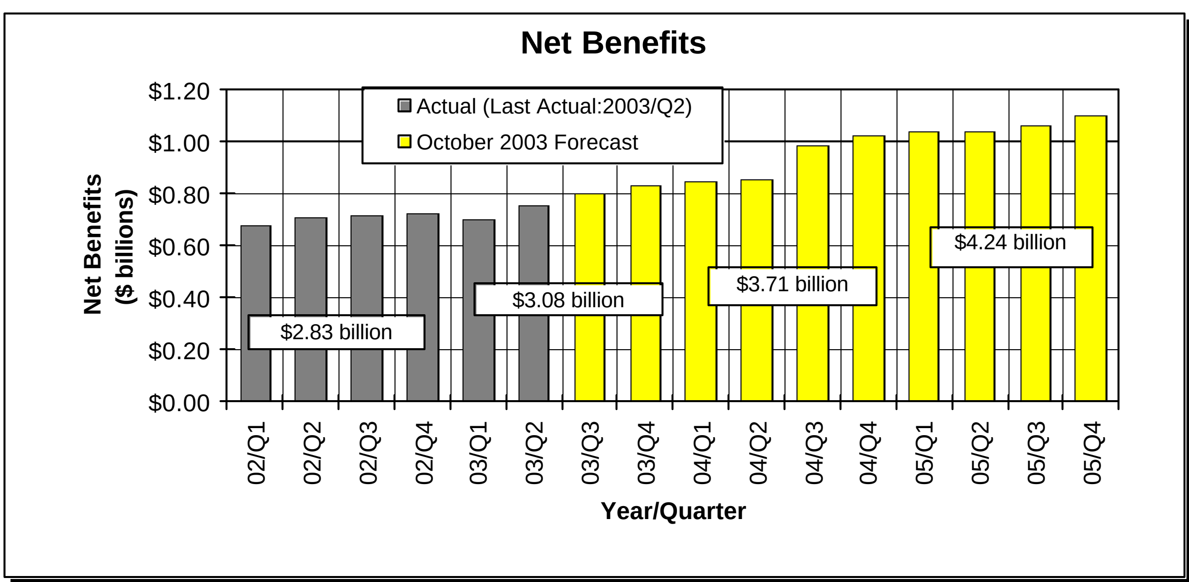
Year	MWBA	AWBA
1999	$336	$235.78
2000	490	268.61
2001	490	292.60
2002	490	302.51
2003	602	319.37 (E)
2004	728	342.25 (E)
2005	840	357.85 (E)

(E) = Estimate

Beginning January 1, 2006, and each January 1st thereafter, the MWBA is increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

The projected increase in weeks compensated is due to a projected increase in the duration of DI claims, as well as the implementation of the PFL program. Senate Bill 1661 (Chapter 901, Statutes of 2002) created the PFL program within the DI program. The PFL will provide up to six weeks of wage replacement benefits to workers who take time off work to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new child. The PFL program will begin accepting and processing new claims beginning July 1, 2004.

The following chart shows the actual and projected quarterly DI net benefits from 2002 through 2005, including PFL benefits in the last six months of 2004 through 2005. The estimates for PFL benefits are preliminary as this is a new program. These estimates will be reviewed and updated as actual data is received.



Contributions

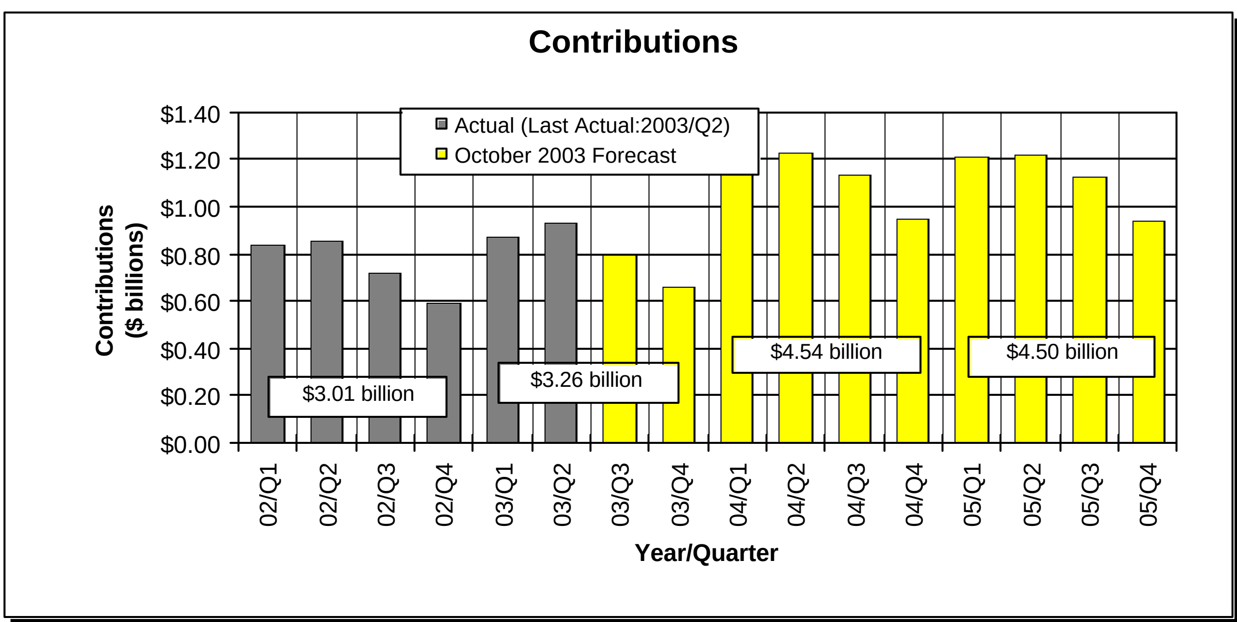
The DI contributions for 2002 were $3.01 billion and are projected to be $3.26 billion in 2003, $4.54 billion in 2004, and $4.50 billion in 2005.

The DI program taxes covered employees up to a ceiling set by Section 985 of the California Unemployment Insurance Code (CUIC). The taxable wage ceiling increases with each increase in the maximum weekly benefit amount. As a result, the taxable wage ceiling increased from $46,327 in 2002 to $56,916 in 2003, and will increase to $68,829 in 2004, and to $79,418 in 2005. Beginning January 1, 2006, the maximum weekly benefit amount and taxable wage ceiling will be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

The DI contribution rate for CY 2003 is 0.9 percent. Based on the formula in Section 984(a)(2) of the CUIC, the calculated DI contribution rate for CY 2004 is 1.1 percent. Section 984(a)(2)(B) of the CUIC requires the calculated DI contribution rate to be increased by 0.08 percent for CYs 2004 and 2005 to cover the initial costs of the PFL program. Therefore, the DI contribution rate for CY 2004 will be 1.18 percent.

The projected increase in DI contributions for 2003 is due to the increase in the taxable wage ceiling. The increases in DI contributions for 2004 and 2005 are due to a combination of the increases in the taxable wage ceiling, a projected increase to the calculated DI contribution rate, and the 0.08 percent increase to the DI contribution rate for the PFL program.

The following chart shows the actual and projected quarterly contributions from 2002 through 2005.



APPENDIX

Employment Development Department
Fiscal Programs Division

Program Estimates Group
Oct 2003

DISABILITY INSURANCE FUND
FORECAST FOR
CALENDAR YEARS 2003-2005
Table 1
(Dollars in millions)

Item	2002	2003(F)	2004(F)	2005(F)
FUND SUMMARY				
End of CY Fund Balance	$487.0	**$559.5**	**$1,248.2**	**$1,386.5**
September 30 Fund Balance	$659.1	**$761.9**	**$1,362.6**	**$1,585.2**
FUND EVALUATION				
End of CY Fund Balance as a % of CY Disbursements	16.2%	**17.2%**	**32.0%**	**31.3%**
Sept. 30 Fund Bal. as a % of year ending Sept. 30 Disbursements	22.5%	**24.2%**	**36.8%**	**36.4%**
RECEIPTS AND DISBURSEMENTS				
Receipts Less Disbursements	$73.3	**$72.5**	**$688.7**	**$138.3**
Total Receipts	$3,070.4	**$3,325.2**	**$4,587.0**	**$4,565.6**
Net Worker Contributions	$3,013.5	**$3,261.2**	**$4,539.8**	**$4,504.4**
Interest Income	$20.2	**$16.1**	**$17.2**	**$28.4**
Other Receipts	$36.7	**$47.9**	**$30.0**	**$32.8**
Total Disbursements	$2,997.1	**$3,252.7**	**$3,898.3**	**$4,427.3**
Net Benefits	$2,833.2	**$3,083.1**	**$3,714.1**	**$4,243.1**
Administration	$163.9	**$169.6**	**$184.2**	**$184.2**

(F) Forecast: Last actual data through June 2003
CY: Calendar Year.
Note: Components may not add to totals due to independent rounding.

DISABILITY INSURANCE FUND
FORECAST FOR
CALENDAR YEARS 2003-2005
Table 2

Item	2002		2003(F)	2004(F)	2005(F)
STATE PLAN CLAIMS DATA					
First Claims Paid (FCP)	663,482		**675,300**	**685,000**	**695,700**
Weeks Paid per FCP	14.76		**15.03**	**15.84**	**16.47**
Weekly Benefit Amount					
Maximum/Minimum	$490/$50		**$602/$50**	**$728/$50**	**$840/$50**
Average	$302.51		**$319.37**	**$342.25**	**$357.85**
COVERED EMPLOYMENT AND WAGES					
Total Avg. Covered Employment	12,483,300		**12,553,200**	**12,747,500**	**13,069,600**
Avg. Covered State Plan	11,998,000		**12,085,600**	**12,284,400**	**12,606,900**
Avg. Covered Voluntary Plan	485,300		**467,600**	**463,100**	**462,700**
Total Average Weekly Wage	$798.00		**$806.68**	**$816.63**	**$832.41**
Average State Plan Wage	$766.57		**$765.61**	**$775.37**	**$790.63**
Average Voluntary Plan Wage	$1,575.04		**$1,868.18**	**$1,911.16**	**$1,970.77**
Total Covered Wages	$520.0	(bil)	**$528.6 (bil)**	**$543.4 (bil)**	**$567.9 (bil)**
Covered State Plan Wages	$480.1	(bil)	**$483.0 (bil)**	**$497.2 (bil)**	**$520.3 (bil)**
Covered Voluntary Plan Wages	$39.9	(bil)	**$45.6 (bil)**	**$46.2 (bil)**	**$47.6 (bil)**
State Plan Taxable Wages	$342.4	(bil)	**$369.0 (bil)**	**$395.6 (bil)**	**$428.9 (bil)**
TAX RATE	0.9%		**0.9%**	**1.18%**	**1.08%**
TAXABLE WAGE CEILING	$46,327		**$56,916**	**$68,829**	**$79,418**
UNEMPLOYMENT RATE (Civilian)	6.7%		**6.6%**	**6.5%**	**6.3%**

(bil) = Amount in billions.

(F) Forecast: Last actual data for wages and employment through the fourth quarter of 2002;

Last actual data for wages and employment through the fourth quarter of 2002.
Last actual data for other items through the second quarter of 2003.
(1) The Average Weekly Wage is calculated using estimated Covered Wages divided by estimated Covered Employment divided by 52.2 (weeks per year).
(2) The calculated tax rate of 1.0% for 2003 was reduced to 0.9% per Section 984(d) of the CUIC.
(3) The tax rate of 1.18% for 2004 includes a calculated rate of 1.1% plus 0.08% to cover the initial costs of the PFL program.
(4) The projected tax rate of 1.08% for 2005 includes a calculated rate of 1.0% plus 0.08% to cover the initial costs of the PFL program.
Note: Components may not add to totals due to independent rounding.

DISABILITY INSURANCE (DI) DEFINITIONS

The following definitions are informational only and arranged in order of their appearance in Tables 1 and 2. The law is the California Unemployment Insurance Code (CUIC). Interpretations of the law are contained in opinions of the Attorney General, administrative and court decisions, and Title 22 of the California Code of Regulations.

Total Receipts

Net Worker Contributions:

This amount represents total worker contributions, less refunds. For example, in 2002, total worker contributions are the amount collected as a result of employers withholding 0.9 percent of all wages for each employee, up to a maximum of $416.94 (0.9 percent of $46,327, the taxable wage ceiling). However, if an employee worked for more than one employer, the total withheld in 2002 may exceed $416.94. The employee would then be eligible for a refund of the amount exceeding $416.94. Refunds are claimed as a credit on the California personal income tax return. Individuals not required to file personal income tax returns may file for refunds with the Employment Development Department.

Interest Income:

This is interest earned on the State Treasurer's investment of DI funds. At any given time, about 99 percent of the DI Fund is invested. The total amount earned by such investments constitutes interest income.

Other Receipts:

Receipts from Voluntary Plan assessments constitute the largest portion of "other receipts." The Voluntary Plan assessment rate is 14 percent of the DI State Plan contribution rate. In 2002, with the State Plan tax rate at 0.9 percent, Voluntary Plan employers were assessed 0.00126 (14 percent of 0.009) of taxable wages. "Other receipts" also includes revenue from the sale of certain reports, recycling of paper, and so forth.

Total Disbursements

Net Benefits:

This is the amount of benefits paid less the amount of cancellations, refunds, or liens. Total benefits may be reduced for various reasons, including: death of claimants; repayment by claimants of benefits erroneously claimed; repayments to the DI Fund by other programs; and benefit checks not cashed.

Administration:

All disbursements from the DI Fund that are not benefit payments fall into the administration category. This includes disbursements for salaries, equipment, supplies, rent, and utilities.

State Plan Claims Data

First Claims Paid:

These are the first benefit payments mailed to each claimant who has fulfilled non-monetary, monetary, and medical requirements and who has filed a claim certifying to the onset of a disability.

Weeks Paid Per First Claims Paid:

The average number of weeks benefits are paid for each first claim paid.

Weekly Benefit Amount:

This is the amount payable per week for the period of a disability. From 1984 through 1989, the minimum and maximum amounts were $50 and $224, respectively. The maximum was increased to $266 in 1990, $336 in 1991, $490 in 2000, and $602 beginning January 1, 2003, while the minimum remained unchanged at $50.

Future SDI benefit increases are tied to the level of workers' compensation temporary disability benefits for work-related injuries. Assembly Bill 749 (Chapter 6, Statutes of 2002) increased workers' compensation temporary disability benefits for injuries occurring on or after January 1, 2003 from $490 per week maximum to $602. For injuries occurring on or after January 1, 2004, the maximum per week will increase to $728 and to $840 for injuries occurring on or after January 1, 2005.

Beginning January 1, 2006, and each January 1 thereafter, the maximum benefit is increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

A table in Section 2655 (a) of the CUIC is used for calculating a claimant's weekly benefit amount (WBA) if the base period high quarter wages (HQW) do not exceed $1,749.20. After January 1, 1990, if HQW exceeded that amount, a claimant's WBA is calculated by dividing 55 percent of the base period HQW by 13 ((HQW x 0.55) / 13), not exceeding the maximum benefit amount.

Covered Employment and Wages

Average Covered Employment:

Employers count the number of employees on their payrolls during the week which includes the 12th day of the month. Quarterly and annual averages are taken from these counts. These averages are considered to represent "full-time" employment, and are smaller than the numbers of all persons who worked for employers during the same periods.

Average Weekly Wage:

To derive the average weekly wage, total wages are divided by covered employment, and the result is then divided by the number of 5-day work weeks in the period. The number of work weeks vary from 12.8 to 13.2 in a quarter and from 52.0 to 52.4 in a year.

Covered Wages:

Covered wages are wages earned by employees subject to the DI provisions defined in Part 2 of the CUIC. Total covered wages include tips, commissions, bonuses, and the reasonable cash value of all remuneration payable to an employee in any medium other than cash.

Taxable Wages:

That portion of covered wages from which DI contributions are taken.

Tax Rate:

The rate at which workers' contributions are determined.

An ad hoc Advisory Committee, comprised of labor and employer representatives, worked with the Department and independent actuaries to develop an experience-based contribution formula that maintains a prudent reserve, reflects benefit costs, and avoids excessive volatility and instability. The formula recommended by the Advisory Committee was introduced to the Legislature and became law on September 29, 1986.

The formula considers fund conditions and cost rate with a year-ending date of September 30 as follows:

$$\frac{1.45 \times \text{Disbursements} - \text{Fund Balance}}{\text{State Plan Taxable Wages}}$$

The rate of worker contributions shall not exceed 1.5 percent or be less than 0.1 percent. The rate of worker contributions shall not decrease from the rate in the previous year by more than two-tenths of 1 percent. The Director may, at his or her discretion, increase or decrease, by not to exceed 0.1 percent, the rate of worker contributions determined by the above formula. However, with the passage of SB 727 (Chapter 797, Statutes of 2003), the Director’s discretion to <u>decrease</u> the calculated DI contribution rate is suspended for CYs 2004, 2005 and 2006.

On September 23, 2002, the Governor signed Senate Bill (SB) 1661 (Chapter 901, Statutes of 2002). SB 1661 creates, within the SDI program, the Paid Family Leave (PFL) program that will provide up to six weeks of wage replacement benefits to workers who take time off work to care for a seriously ill child, spouse, parent, domestic partner, or to bond with a new child. To help fund this program, a surcharge of 0.08 percent will be added to the DI contribution rate for calendar years 2004 and 2005.

Taxable Wage Ceiling:

The upper ceiling of taxable wages. Section 985 of the CUIC requires the taxable wage ceiling to be four times the MWBA multiplied by 13 and divided by 55 percent ((4 x MWBA x 13) / .55).

From 1991 through 1999 the taxable wage ceiling was $31,767. From 2000 through 2002 the taxable wage ceiling was $46,327. The taxable wage ceiling increased to $56,916 on January 1, 2003, and will increase to $68,829 on January 1, 2004, and to $79,418 on January 1, 2005. Beginning January 1, 2006, the taxable wage ceiling will be increased by an amount equal to the percentage increase in the state average weekly wage as compared to the prior year.

Civilian Unemployment Rate:

The number of unemployed persons in California expressed as a percentage of the total number of persons in the California civilian labor force.